Procedure No. 5-05A
RISK ASSESSMENT AUDIT PROGRAM

W/P #:   C-0/2-1
AUDITOR: _____
SUPERVISOR: _____
DATE: _____

OBJECTIVE C-1: RISK ASSESSMENT (120 HOURS)

To identify the threats facing the program or contract under audit; identify the controls or procedures the City has in place to prevent, eliminate or minimize the threats.

C-1.1 Based on information gathered during the Preliminary Survey, prepare a tentative list of threats for the major audit areas identified during Mission Analysis. If computer-processed data is an important or integral part of the audit and the reliability of the data is crucial to accomplishing audit objectives, the auditor should include threats to computer-processed data in this list. Refer to Procedure No. 5-08, Review of Computer Systems.

C-1.2 Send the list of threats to the auditee's representatives (the Assistant City Manager and/or the auditee management) and request them to: (1) add any threats they believe exist that are not on the list; (2) identify the existing internal controls to mitigate those threats; and (3) provide us copies of written procedures describing the identified controls.

C-1.3 Summarize the internal controls identified by auditee management as mitigating the threats. Add to this list any other controls identified during the Preliminary Survey (both actual and potential controls).

C-1.4 Prepare a Risk Matrix showing the controls that mitigate each threat. The matrix should highlight the controls that are most important to the audit subject.

C-1.5 Assess the risk that abuse or illegal acts could occur and materially impact the auditee's compliance with laws, rules, or regulations or have a material effect on the auditee's operations. Consider whether the auditee has controls that are effective in preventing or detecting illegal acts.

C-1.6 If computer systems or computer-processed data are included on the Risk Matrix either as threats or as controls, consult with the Supervising Auditor to determine the need for EDP audit assistance.

OBJECTIVE C-2: VULNERABILITY ASSESSMENT

To determine the probability that noncompliance and abuse, which is individually or in the aggregate material, could occur and not be prevented or detected in a timely manner by the internal controls in place; assess the internal control structure in accordance with SAS 55.

C-2.1 Based on information gathered during the Preliminary Survey, prepare a Threats, Controls, and Vulnerability Assessment File.

1. Update the List of Threats and Controls.
2. Using Table A (Threat Inherent Risk Rating Guide), rate each threat.
3. Using Table B (Internal Control Rating Guide), rate the corresponding internal controls for each threat.
4. Using Table C (Vulnerability Assessment and Testing Extent Table), assess the program's vulnerability and testing extent for each internal control.
5. Identify the audit procedure to test each internal control in the list.
6. If an internal control is not to be tested, explain why not.
7. Submit the Threats, Controls, and Vulnerability Assessment File to the Supervising Auditor and the City Auditor.

C-2.2 Hold a conference with the City Auditor to discuss the auditee's response to the threats, and the tentative risk matrix and vulnerability assessments prepared by the auditor.

C-2.3 Finalize the risk matrix and vulnerability assessments based on the conference with the City Auditor.

C-2.4 Prepare and/or revise preliminary Finding Development Sheets as appropriate. Submit all new or revised Finding Development Sheets to the Supervising Auditor and the City Auditor with the APR according to established biweekly schedule. At the next biweekly meeting, discuss the preliminary findings, or the lack thereof, with the City Auditor to assess whether to revise or expand audit scope, or to drop the audit.

OBJECTIVE C-3: AUDIT PROGRAM DEVELOPMENT

To develop an audit program to determine if the controls or procedures the audited entity has in place to prevent, eliminate, or minimize identified threats are working.

C-3.1 Prepare an audit program including the following elements:

- Audit objectives and methodology;
- Criteria for assessing program performance (where applicable);
- Tests to assess compliance with laws and regulations (Refer to Procedure No. 5-03-06A, Compliance Review Guidelines);
- Tests of internal controls;
- Tests to determine materiality and/or significance, and audit risk;
- Tests to assess the risk that abuse and illegal acts could occur, and to provide reasonable assurance of detecting abuse or illegal acts;
- If computer-processed data are an important or integral part of the audit and the data's reliability is crucial to accomplishing the audit objectives, an assessment that the data are relevant and reliable through a controls review and tests as warranted (Refer to Procedure No. 5-08, Review of Computer Systems).
- Tests to assess whether the Department EDP Contingency Plan is sufficient and appropriately identifies essential EDP applications.
- Other audit procedures and tests as appropriate.

C-3.2 If analysis or testing of computer-processed data is proposed to be included in the audit program, consult with the EDP Auditor or consultant regarding proposed audit steps and the need for additional EDP audit assistance.

C-3.3 Prepare an Audit Standards Plan.

C-3.4 Schedule the First Audit Standards Review. Respond to reviewer's notes.

C-3.5 Prepare an Audit Plan Memo for City Auditor approval with the following attachments: (1) Preliminary Survey Memorandum, (2) Risk Matrix, (3) Threats, Controls, and Vulnerability Assessment, (4) Proposed Audit Program, and (5) Proposed Audit Budget.

C-3.6 Hold a conference with the City Auditor to finalize audit procedures based on risk assessment results. Incorporate the approved audit steps in the Fieldwork Audit Program and Results File.

C-3.7 Complete numbering, labeling, and cross-indexing of completed workpapers, APR, indexes and other audit documents.

C-3.8 Schedule the In-Charge Auditor's review of workpapers and APR files. Respond to reviewer's notes as necessary.

C-3.9 Schedule the Supervising Auditor's review of workpapers and APR files. Respond to reviewer's notes as necessary.